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ACTION ARA-20

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SUBJ: TALK WITH NATIONAL PATRIMONY SECRETARY

1. I LUNCHEd ALONE WITH NATIONAL PATRIMONY SECRETARY FLORES DE LA PENA AND FOUND HIM SOMEWHAT SLOWED DOWN PHYSICALLY AS A RESULT OF A PAINFUL ACCIDENT (BROKEN COCCYX). HE WAS PERSONALLY AS FRIENDLY AS EVER BUT AS USUAL DID NOT GO INTO MUCH DETAIL ON SUBJECTS OF BILATERAL CONCERN TO US. AMONG POINTS HE MADE WERE THE FOLLOWING:

2. WITH REGARD TO HIS RECENT TRIP TO CUBA HE SAID HE HAD FOUND PEOPLE "HAPPY" BUT COULD NOT COMPARE SITUATION NOW WITH PREVIOUS REGIMES THERE BECAUSE HE HAD NEVER BEEN TO CUBA BEFORE. HE SAID HE HAD LONG SESSION WITH CASTRO AND WAS VERY PLEASED WITH CASTRO'S SUPPORT FOR THE ECHEVERRIA CHARTER. HE SAID CASTRO'S EFFORTS TO DIVERSIFY THE CUBAN ECONOMY HAD NOT PROGRESSED FAR AND THAT IT WAS STILL BASICALLY A ONE-CROP ECONOMY. HE SAID HE HAD TRAVELED TO SANTIAGO AND SANTA CLARA AND FOUND COUNTRY GENERALLY APPEARING TO BE PROSPEROUS. HE SAID MEXICO WAS BUYING NICKEL FROM CUBA AND IT WAS ANTICIPATED PURCHASES
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WOULD BE INCREASED. I MENTIONED THAT ENTIRE NICARO

NICKEL COMPLEX HAD BEEN DEVELOPED BY US GOVERNMENT AND SEIZED BY CASTRO WITH NO COMPENSATION TO US. HE WAS OF COURSE AWARE OF THIS. FLORES DE LA PENA SAID THAT HE BELIEVED CASTRO WOULD BE AROUND FOR A LONG TIME AND HAD SUPPORT OF CUBAN PEOPLE. THEREFORE HE BELIEVE THAT THE OTHER COUNTRIES OF THIS HEMISPHERE MIGHT AS WELL ACCEPT THIS FACT AND BRING CUBA BACK INTO THE FOLD. I MERELY INQUIRED AS TO WHAT KIND OF FOLD CASTRO WOULD ENTER BUT HE DID NOT REPLY. IN GENERAL ON CUBA FLORES DE LA PENA SEEMED MILDLY BULLISH BUT NOT TOTALLY UNREALISTIC. HE SAID HE DID NOT ANTICIPATE ANY LARGE CHANGE IN BILATERAL TRADE PATTERNS BETWEEN MEXICO AND CUBA.

3. FLORES DE LA PENA REFERRED TO HIS EARLIER TRIP TO CHILE AND SHOOK HIS HEAD SADLY INDICATING THAT CONDITIONS WERE NOT GOOD IN THAT COUNTRY AND SEEMED LIKELY TO GET WORSE. HE REFERRED TO GALLOPING INFLATION AND NUMEROUS POLITICAL PROBLEMS. HOWEVER, HE CONCLUDED THAT OVERTHROW OF ALLENDE WOULD NOT SOLVE ANYTHING AND WOULD ONLY MAKE SITUATION MORE INTRACTABLE. AT THIS POINT HE REITERATED THAT MEXICO WOULD FOLLOW HER OWN COURSE POLITICALLY AND ECONOMICALLY AND WOULD NOT ADOPT PATTERNS OF CHILE OR ANYONE ELSE.

4. SECRETARY THEN PASSED TO ARGENTINE SITUATION WHICH HE CHARACTERIZED AS ALSO VERY EXPLOSIVE. HE SAID THAT HE BELIEVED ANTI-AMERICANISM WAS GROWING IN ARGENTINA AND THAT THE US HAD BEEN SINGLED OUT AS THE ENEMY BECAUSE THE PEOPLE FELT THE NEED TO BLAME SOMEONE FOR THEIR PREDICAMENT. HE THOUGHT PERON WOULD USE THE US AS A WHIPPING BOY FOR THE COUNTRY'S TROUBLES. AT THIS POINT HE SAID HE THOUGHT LEFTISTS WOULD WIN THE ELECTIONS IN VENEZUELA AND THAT THE US WOULD HAVE ANOTHER PROBLEM THERE. HE THEN REFERRED TO A CONVERSATION HE HAD SOME TIME AGO IN NEW YORK WITH NELSON ROCKEFELLER WHERE HE HAD LISTED THE FRIENDS THE US WAS LOSING IN THE HEMISPHERE.

5. I ASKED FLORES WHAT IN HIS VIEW WE COULD DO TO ARREST THIS TENDENCY WHICH HE DETECTED FOR US TO LOSE FRIENDS. IN THIS CONTEXT HE REFERRED AGAIN TO THE CONCEPT OF A CONFIDENTIAL

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HEMISPHERE-WIDE FREE TRADE AREA INCLUDING ALL OF THE COUNTRIES OF LATIN AMERICA PLUS THE US AND CANADA. HE NOTED THE PREFERENCE SYSTEM NOW EXISTING BETWEEN THE COMMON MARKET AND THE FORMER COLONIAL AREAS OF AFRICA AND THOUGHT THIS HEMISPHERE SHOULD HAVE SOMETHING SIMILAR THOUGH NATURALLY ON A BASIS OF EQUALITY FOR ALL PARTNERS.

6. FLORES DID NOT WISH TO DISCUSS DETAILS OF RECENT

MEXICAN LEGISLATION ON FOREIGN INVESTMENT AND SAID THAT COMPANIES CONTEMPLATING INVESTMENT SHOULD POSE THEIR SPECIFIC QUESTIONS TO MANTILLA MOLINA WHO HAD BEEN APPOINTED FOR THAT PURPOSE. HE DID SAY THAT HE BELIEVED COMPANIES MERELY WISHING TO EXPAND EXISTING LINES OF PRODUCTION COULD DO SO WITHOUT PASSING THROUGH THE SEVEN-MAN MINISTERIAL COMMITTEE BUT THAT IF THEY WISHED TO ADD NEW LINES THEY WOULD HAVE TO OBTAIN THE COMMITTEE'S APPROVAL. HE WOULD NOT SPECULATE ON WHETHER IN THOSE LATTER CASES FIFTY-ONE PERCENT MEXICAN OWNERSHIP WOULD BE INSISTED ON. FLORES SAID HE HAD NOT FOLLOWED THIS SUBJECT CLOSELY RECENTLY BUT THAT HIS IMPRESSION WAS THAT APPLICATIONS FOR NEW INVESTMENTS HAD COME PRIMARILY FROM COMPANIES ALREADY OPERATING IN MEXICO AND THAT THERE HAD BEEN FEW REQUESTS FROM NEW INVESTORS SINCE THE LAW TOOK EFFECT. HE INDICATED NO CONCERN ABOUT LACK OF INVESTMENT AND MENTIONED THE JAPANESE AS HAVING BEEN ACTIVE IN THIS CONTEXT RECENTLY.

7. FLORES DE LA PENA DID INDICATE SATISFACTION AT THE RECENT DECISION OF THE US TARRIFF COMMISSION THAT MEXICAN STEEL EXPORTERS WERE NOT GUILTY OF DUMPING IN THE US. HE THEN AGAIN MENTIONED THE ANTI-DUMPING PROBLEM OF MEXICAN SULPHUR EXPORTERS TO THE US. I SAID I THOUGHT MEXICO WAS NOW EXPORTING ALL HER SULPHUR ELSEWHERE ESPECIALLY TO CHINA. FLORES SAID IT WAS TRUE MEXICO HAD FOUND MARKETS FOR HER SULPHUR BUT HE SAID HE WOULD STRONGLY PREFER TO RESUME EXPORTS TO THE US WHICH WAS MEXICO'S "NATURAL MARKET". HE SAID CHINA WAS OF COURSE PAYING HIGHER PRICES THAN WE HAD PAID FOR MEXICAN SULPHUR BECAUSE OF MUCH GREATER TRANSPORTATION COSTS. HE ASKED AGAIN THAT ANTI-DUMPING RULING ON SULPHUR EXPORTS TO US BE RECINDED. I PROMISED TO REPORT HIS CONTINUED INTEREST

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IN THIS MATTER.

8. COMMENT: FLORES DE LA PENA SEEMS TO RETAIN A POWERFUL POSITION ON THE ECONOMIC SIDE OF THE MEXICAN GOVERNMENT THOUGH NEW TREASURY SECRETARY LOPEZ PORTILLO (WHOM I AM SEEING TODAY) SEEMS TO BE A RISING STAR WHO MAY COLLIDE IN THE FIRMAMENT WITH FLORES DE LA PENA ONE DAY SOON.

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